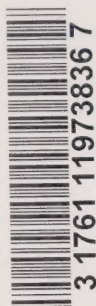


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HOUSE OF COMMONS
CANADA

FOR THE BENEFIT OF OUR CHILDREN: IMPROVING TAX FAIRNESS

Nineteenth Report of the Standing Committee on Finance

**Maurizio Bevilacqua, M.P.
Chair**

**Sub-Committee on Tax Equity for Canadian Families
with Dependent Children**

**Nick Discepola, M.P.
Chair**

June 1999

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Minister of Finance, M.R.
Clark

Sub-Committee on Tax Equity for Canadian Families with Dependent Children

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June 1979



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THE STANDING COMMITTEE ON FINANCE

has the honour to present its

NINETEENTH REPORT

Pursuant to Standing Order 108(1), a Sub-Committee of the Standing Committee on Finance was established to study the equity of the Canadian tax and transfer system as it applies to families with dependent children.

In accordance with its mandate under Standing Order 108(2), the Sub-Committee examined the subject matter, as charged, and agreed to present the following report to the Committee, entitled: *For the Benefit of Our Children: Improving Tax Fairness*.

Your Committee has adopted this report, which reads as follows:

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The tax treatment of families with dependent children has become the subject of considerable debate in the media, amongst the public, and in the House of Commons. Concern has been expressed about the standard of living of Canadian families, Canadian tax policy, and the perception that government support to families with children has eroded over time.

On 4 March 1999, it was moved in the House of Commons by the Official Opposition “That, in the opinion of this House, the federal tax system should be reformed to end discrimination against single-income families with children.” As a consequence of the diversity of opinions expressed during the ensuing debate, the Minister of Finance asked the Standing Committee on Finance to examine this subject matter. On 17 March 1999, the Standing Committee passed the following motion:

The House of Commons Standing Committee on Finance will establish a Sub-Committee to study the tax and transfer system as it applies to families with dependent children. This investigation is to examine the impact of federal policies and determine if they treat families with dependent children in an equitable manner.

The Sub-Committee is to consider the situation of different family configurations (single parent, dual parent—single earner, dual parent—dual-earner) at various income levels to establish if the above noted goals are being consistently met.

In this respect, the Sub-Committee will hear from expert witnesses and other interested parties, and report its findings to the Standing Committee on Finance by 15 June 1999. The Sub-Committee Report should include estimates of the financial impact on families and the fiscal consequences to the government of any recommendations it might make.

For the purpose of our study, we assumed that the basic characteristics of the current tax system will remain in place. This includes the concept of a progressive rate structure and the fact that the basis of taxation is the individual.

The Sub-Committee commenced its investigation by hearing officials from Status of Women Canada. We also heard from officials of the Department of Finance, and Human Resources Development Canada. Subsequently, we heard from a wide range of experts and individuals in Ottawa and across the country.

As the mandate suggests, this study was originally viewed as an exercise in tax comparisons. In our travels across the country we met many Canadians who helped us to

put a human dimension to this issue. We learned about the choices that parents face when having children, the sacrifices they make and challenges they encounter. It is because of this that we, in fact, go beyond our original mandate in delivering this report.

Much of the current debate as to whether the policies of the Government of Canada treat families with dependent children equitably has focused on the *Income Tax Act*. However, since many benefits to families are provided outside of the income tax system, it is necessary to look at both the tax system and our social benefits programs on a combined basis to assess the question of equity.

Prior to the reform of the child benefits system in 1992, the income tax system contained a non-refundable credit for dependent children that was available to all taxpayers. Families with children were also eligible to receive the family allowance and the child tax credit. Effectively, these measures gave some recognition to the cost of raising children. However, as a result of the 1992 reforms, the non-refundable tax credit, the family allowance, and the child tax credit were removed from the income tax system and amalgamated, to cut program costs, into one program now known as the Canada Child Tax Benefit. As a result of the 1992 reforms, the personal income tax system ceased to contain general provisions recognizing the cost to families of raising children. (See Appendix C for a history of child benefits and Appendix D for a summary of tax and transfer measures related to families with children.)

In Canada, the basic unit for taxation is the individual and not the family. While family status may be taken into account for determining the applicability of certain tax measures, every individual with taxable income is subject to tax on a stand-alone basis. In addition, the federal personal income tax system is a progressive one, which means that the amount of tax to be paid is linked to a taxpayer's ability to pay. Currently, the first \$29,590 of taxable income is taxed at a federal rate of 17%. The next \$29,590 is taxed at 26% and taxable income over \$59,180 is taxed at 29%. Provincial governments also collect income taxes and their rates vary from province to province. The average provincial income taxes are approximately 50% of the basic federal tax payable.

Within the *Income Tax Act*, there remain three main provisions which may directly or indirectly relate to children. In the event that the spouse of a taxpayer has little or no income, the taxpayer may be eligible to claim a spousal amount, which is a non-refundable tax credit often referred to as the spousal exemption. This would be applicable in the case where a parent provides direct parental care in the family home but also applies in the case of a childless couple or couples with grown children where only one spouse works in the paid labour force. Secondly, in the case where a taxpayer has no spouse but has other dependent family members or eligible dependents, the taxpayer may claim an equivalent to married non-refundable tax credit. Each of these provisions can provide a benefit even if there are no children in the family and therefore are not exclusively benefits for families with children.

The third provision is the Child Care Expense Deduction which is available to families where both parents have earned income and incur child care expenses. This is also available to lone-parent families with earned income. Families in which one parent

provides direct parental care in the family home cannot claim this deduction even if they incur child care costs such as nursery school. This is the only remaining tax provision which relates directly to costs of raising children, but as noted above, it is not available to all families with children.

Based on the foregoing highlights of the income tax system and its provisions, it is apparent that families with dependent children pay almost as much income tax as families without dependent children who have the same level of income. In addition, because of progressivity and the individual basis of taxation, the one-earner couple will typically pay more income tax than a two-earner couple with the same level of family income. This is true regardless of whether the couples have dependent children or not.

In view of the foregoing, after taking into account the effects of progressivity, the substantial debate has to do with whether the benefits provided to families with dependent children from both the income tax and transfer systems are fair and equitable between families where both parents earn income and those where one parent provides direct parental care in the family home. The tax system has traditionally been judged against two equity criteria. A tax system satisfies the criterion of vertical equity if those taxpayers with a greater ability to pay (i.e. greater discretionary income), pay a higher proportion of their income in tax than those with less ability to pay. A tax system satisfies the criterion of horizontal equity if those in similar economic circumstances pay the same amount of tax. The combined tax and transfer system is judged in the same way.

THE TAX AND TRANSFER SYSTEM: NO SYSTEMATIC INTEGRATION

In order to make a full assessment of the net tax position of families, it is necessary to view the tax system and the transfer system as a whole. The tax system does more than just raise revenue for the government. It is a mechanism by which benefits are delivered to individuals and families. Over time, these benefit programs have been reformed yet they still do not form a comprehensive complement to the tax system.

It is widely recognized that family income is the appropriate basis upon which transfers are delivered to households. Income tested benefits are more precisely delivered to those in need when family income is used. But government transfer programs have been designed, and have evolved over time, to meet a variety of needs and to respond to a variety of circumstances. Thus what we refer to as the tax/transfer system amounts to an amalgamation of many different programs without any common goal or rationale. It is difficult, therefore, to reconcile all of these elements at the same time.

WHY DO FAMILIES PAY DIFFERENT AMOUNTS OF TAX?

In respecting the mandate of this Committee, we requested that the Department of Finance present a detailed explanation of the income tax system, showing the factors that cause tax liabilities to vary according to family configuration. According to data

provided by the Department of Finance, there are two major reasons for the different tax treatment of single-earner and dual-earner couples. With a family income of \$60,000, a dual-earner family, where family income is split 60% and 40% amongst the two earners, could pay as much as \$3,850 less in taxes than a single-earner family. This is true whether or not they have children, and it is due to the fact that the personal income tax system is both progressive and applied to individuals, and not families.

In this particular example, with total family income of \$60,000, the one-earner couple without children has more than half of its total income taxed at the middle marginal tax rate where the combined federal-provincial rate is about 39%. The dual-earner couple without children has less than 11% of its total income taxed at this rate. The majority of its family income is subject to the lowest tax bracket, where the combined rate is 25%.

If, in the case of the dual-earner family, income were split evenly amongst the two spouses, their tax burden would fall even further. No income would be subject to the combined federal-provincial rate of 39%. Seventy percent of income would be taxed at the lowest rate, with the remainder subject to no tax.

If we consider only families with children and recognize the fact that the Child Care Expense Deduction (CCED) can be used to reduce taxes even further, this differential can grow to as much as \$5,875. The CCED is available only to families meeting certain criteria, one of them being to provide to Revenue Canada the name and social insurance number of the individual providing child care or the name of the institution. These deductions are generally allowed only with respect to a parent who works or goes to school. This deduction is not available with respect to other child related expenses, or any expenses incurred by stay-at-home parents.

The Canada Child Tax Benefit (CCTB) is based on family net income, and not family total income. As a result, the dual-earner family in this example receives almost \$200 more in CCTB than the single-earner family. This is true even though the single-earner family is eligible for an additional benefit of up to \$213 per child under the age of seven, by virtue of the fact that it had claimed little or no child care expenses.

In the example provided by the Department of Finance, two-thirds of the tax differential between single-earner and dual-earner couples is a result of progressivity. Only one-third of the differential is due to the effects of the Child Care Expense Deduction.

These results obviously depend upon the numerical examples used. They do give a sense, however, as to the relative importance of the various factors that can produce these results.

The following table is based upon data provided by the Department of Finance. (It should be noted at the outset, that the Committee does not believe that this type of analysis is appropriate.)

It is based on the following assumptions:

- In the dual-income family, the spouse with the higher income earns 50% more than the other spouse.
- Each adult in the workforce incurs additional work-related expenses amounting to \$125 per month (\$1,500 per year).
- Each family has two children, one aged 8 years and the other aged 4 years.
- The dual-earner family incurs child care expenses which equal the maximum deduction then available in 1996, namely \$5,000 for the child under 7 years of age and \$3,000 for the child older than 6 years of age. This is in contrast to the average CCED claim of \$2,600 per family actually taking advantage of this deduction in the 1996 taxation year.
- CPP/QPP and EI premiums are treated as pure, non-discretionary expenditures and no benefits are attributed to them.

	Families With Children Single Earner	Dual-earner	Differential
Family Income	60,000	60,000	
Income of Spouse 1	60,000	36,000	
Income of Spouse 2	0	24,000	
Income Taxes (Excluding CCED)	15,382	11,534	3,848
Tax Impact of CCED	0	2,026	-2,026
Net Income Taxes	15,382	9,508	5,874
Canada Child Tax Benefit	733	920	-187
Income Taxes Less Benefits	14,649	8,588	6,061
CPP/QPP and EI Premiums	2,332	3,597	-1,265
Other Work Related Expenses	1,500	3,000	-1,500
Child care Outside the Home	0	8,000	-8,000
Disposable Income	41,519	36,815	4,704

There are two main observations that can be made from this table. In the first place, as noted above, the largest component of the tax differential arises from elements of the tax system that have nothing to do with children. This can be seen in the fourth line of the table, entitled "Income Taxes (Excluding CCED)".

The other observation that is evident from this table is that dual-earner couples are likely to be worse off financially than single-earner families, although the exact extent of

the gap is not perfectly clear. The Department of Finance calculates disposable income by deducting taxes paid and other expenditures from total income. Some of these deductions are arbitrary, however. For example, premiums paid for Employment Insurance and CPP/QPP, while involuntary, constitute the purchase of valuable services, either protection against income loss due to unemployment or child rearing, or future income in the form of a pension. Dual-earner families are able to buy more of these services than single-earner families with the same total income, yet the calculation of disposable income by the Department does not take this benefit into account. Indeed, the reader of such a table would conclude that the family buying more of these services is worse off.

Disposable income is not a well-defined concept. To the extent that it is a measure of discretionary income, the bottom line of the table is subject to some debate. For example, child care outside the home entails expenses that are, to some extent, also incurred when child care is provided within the home. Yet the example highlighted by this table does not recognize that fact.

This table highlights two unsatisfactory features of this whole debate. In the first place, it has, to some extent, been driven by concerns that are not on target. In other words, the tax system does not appear, for the most part, to favour one type of family with children over another type of family with children.¹ In our view, the comparison of the two-earner versus one-earner family with the same total income is not an appropriate way to look at the taxation of families with children.

In defending, or at least explaining, the status quo, the Department of Finance also muddies the water to some extent by comparing the tax position of families with children on the basis of disposable income, defined in a very arbitrary way. This defence is also mired in the two-earner/one-earner distinction.

The Committee believes that this analysis, and conclusion, is inappropriate, not just because of the arbitrariness of some of the basic assumptions. It is inappropriate because it asks the wrong question. It is not representative of the choices facing families when they have children. They do not have the option of earning \$60,000 per year through the labour force efforts of one parent or through the labour force efforts of two parents. What they will face is the choice of care arrangements for their children. Both parents could continue to work in the paid labour force and use third-party care, or one could forego market income to provide care in the home.

In the following table, we consider the implications of a family that makes the choice between having both parents work, earning \$60,000 in total income, or having one parent stay-at-home with a decline in total income to \$36,000. In the latter case, this family would experience a drop in total disposable income of over \$8,650. While this family would pay less tax, receive more benefits through the Canada Child Tax Benefit, incur fewer work

¹ As is noted later on in the report, where a family with children becomes divorced, the tax system provides some additional support to what are now two households by allowing one of the parents to claim the equivalent to spouse credit.

related expenses and pay less CPP/QPP premiums and EI premiums, none of these is sufficient to offset the significant decline in disposable income. It is this bottom-line result that is the important conclusion in this example. Who gets a tax break and who doesn't get a tax break is not the relevant question to ask.

Thus it is clear that families who choose to forego one income to care for children make a significant financial sacrifice. Furthermore, this sacrifice is not limited to families who "have the financial resources to make such a sacrifice." As the data presented to the Committee by Richard Shillington show, this decision is made almost equally by families of all income levels and is not affected by the income of the father. The following chart from the presentation of Mr. Shillington, using 1994 data, shows quite clearly how parents' decisions about participation in the paid workforce are not affected by the income status of the family. It shows that the proportion of mothers working full time for the full year, in families with preschool children, varies from about 25% to 40%, amongst the income classes. There is, however, no significant and systematic pattern based on the income of the husband.

The Financial Implications Facing Families With Children

	Stay-at-Home Parent Caring for Children	Both Parents in Paid Workforce with Purchased Child Care
Family Income	36,000	60,000
Income of Spouse 1	36,000	36,000
Income of Spouse 2	0	24,000
Income Taxes (Excluding CCED)	6,085	11,534
Tax Impact of CCED	0	2,026
Net Income Taxes	6,085	9,508
Canada Child Tax Benefit	1,933	920
Income Taxes Less Benefits	4,152	8,588
CPP/QPP and EI Premiums	2,186	3,597
Other Work Related Expenses	1,500	3,000
Child care Outside the Home	0	8,000
Disposable Income	28,162	36,815

Table
Distribution of Canadian Parents of Preschool Children
by Husband's Income



In its 1996 report to the Government of Canada, the National Forum on Health points out that Canada is the only Western industrialized country that does not take into account the cost of raising children when determining how much tax families with children should pay, compared to those without children. The Forum concluded that there was an urgent need to invest in children and recommended that changes to the tax system be made, to provide greater horizontal equity between families with and without children.

This general conclusion, also applies to dual-earner families who make use of the Child Care Expense Deduction. Although this deduction has the effect of making the tax burden more equal, it is still likely that the family with children pays a disproportionate tax burden in relationship to the one without children.

It should also be noted that Canada does not compare favourably with other countries. According to a study by Shelley Phipps,² with the exception of the United Kingdom, households with children generally pay considerably less tax than households without children, with the same before tax income.

THE ROLE OF CHILD BENEFITS

It is not the mandate of this Committee to look at the tax system in general but rather to examine how it affects families with children. The mandate of the Committee was

² Shelley Phipps, "An International Comparison of Policies and Outcomes for Young Children," Canadian Policy Research Network Study No. F05.

not to consider general tax reform, even though such reform would have an impact on families with dependent children. Instead, we are concerned with those elements of government policy designed for families with children, to see if they are appropriate and applied in a consistent manner.

The Canada Child Tax Benefit which is delivered on the basis of family net income, is largely neutral with respect to family structure. Single-earner couples are for the most part treated the same as dual-income earners and lone-parent families are treated largely like dual-parent families. The only element of non-neutrality arises from the fact that the benefit is based on net income and not total income. It is thus affected by child care expenses and RRSP contributions deducted from income.

Much confusion has surrounded the Canada Child Tax Benefit and the National Child Benefit (NCB) during our hearings. The National Child Benefit was introduced as a replacement for the working income supplement that was previously part of the Child Tax Benefit. This working income supplement was designed to help low-income families who were in the workforce. This supplement was originally designed as compensation for many of the in-kind benefits (dental plans, drug plans, etc.) available to those on social assistance and not available to those in the workforce.

Canadians who are on social assistance receive the National Child Benefit but their social assistance entitlement is often deducted dollar for dollar by the provinces. According to officials at Human Resources Development Canada, all provinces except New Brunswick and Newfoundland are currently reducing social assistance payments to those families in receipt of the National Child Benefit. Provinces that impose these reductions are expected to reinvest the savings into other programs for low-income families. There is no "clawback" of the Canada Child Tax Benefit by the provinces. It is subject only to the 5% reduction (2.5%, in the case of one-child families) that is applied to family income.

Consequently, our concern here is principally with the Child Care Expense Deduction. Statistics from Revenue Canada for the 1996 tax year indicate that this deduction is being used by about 760,000 claimants, with about \$2 billion in total deductions in 1996. Only a small proportion of families with child care expenses (less than one third) actually made a claim under the CCED. We can only speculate as to why so few Canadians make use of this claim. About 30% of those claiming the deduction had income between \$20,000 and \$30,000 per year. Three-quarters of claimants had income between \$10,000 and \$40,000. The average deduction is \$2,600, with the value of the benefits, at this average, ranging between \$650 and \$1,300. As a deduction, the value of the benefit is greater for those with higher incomes.

According to the Department of Finance publication, *Government of Canada Tax Expenditures 1998*, this deduction cost the federal government about \$415 million in 1996, or about \$685 per average taxable claimant. When provincial taxes are also considered, the average tax reduction would stand at just over \$1,000.

Whether or not this is regressive depends upon the nature of the benefit. If, as claimed by many supporters, it is an employment related expense, then it makes sense to

allow a deduction. The CCED is used in the calculation of discretionary income, the basis upon which the personal income tax is to be applied.

Despite the fact that, throughout our hearings, the Committee heard support for retaining the Child Care Expense Deduction, we recommend that it be re-examined to determine whether it effectively achieves its policy objectives. Our concern is simply to ensure that it constitutes a valuable element of government programs assisting families with children. This review should address the potential impact of a national day care program on the CCED. In Quebec, for example, the provincial government has started to introduce a day care program that costs parents \$5 per child per day. As a result of large provincial subsidies, parents who use this service face extremely low child care costs. Consequently, the aggregate value of the CCED tax benefit will be minimal to those families. The Quebec subsidy provides an equal benefit to all families making use of this day care program. This stands in contrast to the varying benefit of the CCED.

THE CURRENT APPROACH

The current approach to child benefits is very much the product of the large deficit environment of the late 1980s and early 1990s. With deficits seeming to be almost impossible to control or eliminate, governments sought to restrict the scope of policies so that benefits could be concentrated in those families where they were most needed. Universality was considered unaffordable. Selectivity was a necessary, if not a desirable characteristic of social programs.

Any general recognition of the costs to the family, and value to society, of raising children was abandoned. The selectivity that currently characterizes the system of child benefits is now viewed, by many analysts and witnesses before the Committee, as a serious flaw. Not only is it flawed because it fails to recognize the costs to families of raising children and fails to recognize the value to society of child rearing, this selectivity creates economic inefficiency by subjecting families to extremely high marginal tax rates that severely penalize attempts to improve their economic situation. Workforce participation is discouraged for a large segment of lower income families. As a result of the selectivity of child benefits, these high marginal tax rates apply primarily to families with children. Frances Woolley, of Carleton University, concluded that universal benefits were best because they reach families with children and because they do not produce the high marginal tax rates associated with selective, income-tested benefits.

The Child Care Expense Deduction, while primarily considered to be a work related expense deduction, can also be thought of as a government benefit for those raising children, and not just the incremental costs associated with workforce participation. This is due to the fact that some of the eligible expenses go beyond those that would merely allow a parent to enter the workforce.

The Committee faces a dilemma however. On the one hand it is difficult to determine the proportion of the Child Care Expense Deduction that is related to expenditures on children that are also undertaken by stay-at-home parents. On the other

hand, unlike other government benefits with respect to children, we cannot calculate the value to families. This value depends upon the cost of child care and the tax position of the parent who is able to claim this deduction. This latter point could be resolved by converting the CCED into a non-refundable tax credit which would provide a level benefit for all claimants.

What the Committee would like to do is resolve any potential inconsistency in the treatment of families with children (this is consistent with our mandate) and on the other hand provide a general recognition of the parental costs and social value of child rearing (this is where we go beyond our mandate).

ELIMINATING THE DISPARITY BETWEEN SINGLE-EARNER AND DUAL-EARNER COUPLES

As noted earlier, dual-earner couples with the same family income as single-earner couples likely pay less tax. This is due to the progressive nature of our income tax system and the fact that taxes are levied on individuals and not families. The Committee has also argued earlier that the distinction between dual and single-earner couples with the same family income is a misleading one, which masks the true issue. Nevertheless, any reform to the income tax system, and any reduction in tax rates, will likely affect this disparity and the Department of Finance presented the Committee with several possibilities for reform.

For example, a reduction in the middle-income tax rate will reduce the gap for families with average incomes, everything else being held equal. According to the Department of Finance, reducing the middle-income tax rate by one percentage point would cost the federal government \$1.1 billion and lower the tax differential by approximately \$350. This is less than 10% of the calculated tax differential for families with total income of \$60,000, as shown in the first table.

Another way to reduce the disparity is to increase the spousal credit so that it is equal to the basic credit. This reform would cost the federal government \$430 million and reduce the differential by \$180. It should be pointed out that taxpayers can receive the full spousal credit even if their spouses have as much as \$538 dollars in income. If the spousal credit were to be made equal to the basic credit, this \$538 income exclusion should be eliminated.

The gap would also be reduced if the tax system were reformed to be a flat tax. A flat tax, however, would be a major reform to the tax system and would require much more of a justification than any apparent discrepancy in the tax treatment of single-earner and dual-earner families. The Department of Finance also provided data on the cost of this option. A revenue-neutral flat tax would require a marginal tax rate of 22% (5 percentage points higher than the current low marginal tax rate) and would result in a substantial redistribution of after-tax income. For example, 80% of taxable filers would see an increase in their tax liabilities. A flat tax-rate of 17%, while not increasing the tax burden on anyone, would cost the federal government \$17.8 billion.

Moving to a flat tax represents a significant reform of the tax system. Any such examination would be based on considerations that go far beyond the mandate of this Committee. Hence we mention this option only because it was presented to the Committee.

1. INCOME SPLITTING

Many witnesses came before the Committee with numerical examples that compared the tax position of one-earner and two-earner families. They noted the discrepancy in taxes paid, and often suggested income splitting as a solution to this discrepancy. At the same time, they recommended that the Committee study the matter carefully, in recognition of the fact that it might not be the solution in all situations.

Income splitting allows couples subject to different marginal tax rates to even them out in such a way that reduces total family taxes paid. By transferring income to the lower income partner, this technique has the effect of altering the basic nature of the tax system — the degree of progressivity is reduced and the unit of taxation becomes the family.

As demonstrated in the first table, a dual-earner couple with the same total income as a single-earner couple is not as well off as the latter. Not only are there additional employment related expenses that must be incurred with respect to the second worker, the value of unpaid work in the home, or leisure, must also be taken into account. While difficult to quantify, the principle must be recognized. Thus income splitting must be subject to certain limits. The Department of Finance estimates that a simple income splitting mechanism, applied to families with children, would cost the federal government \$4 billion. This proposal would provide no benefit to lone-parent families. It would only benefit those dual-earner families where the two adults are in different marginal tax brackets.

2. JOINT FILING

Another approach to reducing this discrepancy is to apply tax on the basis of family income rather than individual income. This also poses its own set of problems. It would discourage labour force participation by secondary earners since they would be subject to high marginal tax rates even on low income levels as explained by Robin MacKnight of the Canadian Tax Foundation. Thus family taxation, implemented in its most simple form, (i.e. one which does not sufficiently increase basic exemptions or tax bracket thresholds), would not be neutral. The Department of Finance estimates that a simple form of family-based taxation will only create losers (about 84% of taxable filers) and would result in additional federal tax revenues of \$8.5 billion. Many of these adverse effects could be offset by making family taxation revenue neutral, however it would still have the effect of taxing marriage — married couples would have to combine their incomes into one whereas common law couples could not be forced to do the same.

EXTENDING THE MANDATE OF THE COMMITTEE: VALUING CHILD REARING

In conducting these hearings, the Committee realized that it would be very difficult to stay within the scope of its mandate. While the policy debate that led up to our

study was quite limited, focusing almost entirely on the issue of single-earner vs. dual-earner taxation, our hearings led us to realize that the subject could only be addressed within a much broader context.

Some of the suggestions mentioned above in fact go beyond our mandate. But even those are too limiting.

It is important that the tax/transfer system be fair, and be seen to be fair. The system of child benefits must be more than fair. It must achieve the appropriate social goals, namely to recognize the social benefits of child rearing, especially in the early years.

If there are social benefits to child rearing, and we believe there are, then government policy should seek to ensure that those benefits are maximized. Early childhood development is crucial to the formation of healthy, well-rounded individuals. In the early months and years, parents are crucial. This issue is currently being studied by another Committee of the House of Commons, the Sub-Committee on Children and Youth at Risk of the Standing Committee on Human Resources Development and the Status of Persons with Disabilities, which will report separately to the House.

When parents have a child the choices they confront are not to be a single-earner family earning \$60,000 or a dual-earner family with the same income. The choices they face are generally to be a single-earner family with \$36,000 of total income or a dual-earner family with \$60,000 in total income, and higher expenses. And the choice between staying at home and re-entering the labour force is typically a short-run and a long-run decision. Most stay-at-home parents eventually re-enter the labour force.

Raising children is expensive and requires many sacrifices. It is also one of the most important roles in our society, which benefits us all. In suggesting that child rearing should be recognized by the government, we are not suggesting that all of the costs should be borne by the government. This has never been the case in the past, nor should it be the case in the future. However, while we were conducting hearings across the country, we heard witnesses in Calgary telling us that they were ready to make sacrifices when they decided to have children. Accepting the fact that the standard of living of the family would decrease was a part of this sacrifice. Nevertheless, they did not want an extra penalty resulting from the choice of having a parent stay-at-home. This sentiment remained with the Committee throughout its hearings.

A number of witnesses outlined a variety of ways in which universal recognition of child rearing could be introduced into the tax/transfer system. The following are some of the principal arguments and suggestions that were expressed during our hearings:

1. A UNIVERSAL FAMILY ALLOWANCE AND A NON-REFUNDABLE TAX CREDIT

One suggestion was to reintroduce a universal family allowance. Now that, after years of restraint, the government is able to make some new investments in social programs, the reintroduction of universality seems appropriate.

Another approach would be to reinstitute a non-refundable credit for families with dependent children. Both of these measures would deliver benefits only to those families with children and would be consistent with our traditional system of child benefits. These benefits would be targeted to all families with children, whether or not they actually stay-at-home to raise those children. The non-refundable credit would only benefit those who are in a taxable position. As noted by John Richards of Simon Fraser University, a credit would have the advantage of being equitable. Giving a family a cash allowance and subjecting it to tax would leave families with a “bad taste.” A simple credit would be more efficient and fair. Moreover, middle-income families, who suffer more than anyone else from a tax inequity, would be the more advantaged by this approach.

The two options also differ in another very important respect. The family allowance has traditionally been delivered to the primary caregiver typically, but not always, the mother. The tax credit is a benefit that is delivered directly to the taxpayer claiming it. In the case of a one-earner family, that would not be the primary caregiver. It is the view of the Committee that any new initiative be delivered to the primary caregiver.

Prior to the reforms of this decade, the federal government offered both of these simultaneously. In each instance it is assumed that the new universal benefit could replace all or part of the existing Child Care Expense Deduction.

The CD Howe Institute proposed that there be a universal \$2,000 deduction for parents with children. The CCED would be reduced by a similar amount. According to this plan, those who now use the CCED would be no worse off than before. Those who do not take advantage of the CCED would be better off than before. This proposal, however, is regressive in the sense that higher income earners would receive a greater benefit. Those who are in a non-taxable position would receive no benefit. The proposal is also costly. According to the CD Howe Institute, the annual cost would be \$3 billion.

2. REFUNDABLE CREDIT TO PARENTS WHO FOREGO EARNED INCOME

Another possibility to improve horizontal equity is to deliver a non-taxable benefit only to those parents who give up market income and employment opportunities to raise children. In such a case, the benefits would be restricted to parents who forego earned income. For example, a parent could be eligible for a benefit for each eligible child, for every month that the parent had no earned income. The amount could be linked to the value of the benefit currently provided by the CCED. In addition, it could be delivered as part of the CCTB but not be subject to the family-income test. The Committee believes this would provide some equity for parents who provide direct parental care. There are obviously administrative and reporting details that must be worked out to make such a proposal administratively feasible.

3. PENSIONS FOR CHILD REARING

Another way of recognizing the value of child rearing is to provide the option to participate in the CPP/QPP for parents who forego the opportunity to work in the paid

workforce in order to provide care in the home for their children. While not providing immediate financial assistance to parents, such initiatives support child rearing by minimizing any potential future costs associated with withdrawal from the workforce.

The Committee heard much testimony while travelling about the financial sacrifices made by parents who choose to stay-at-home with their children. They also subject themselves to future income insecurity by reducing their pension entitlements.

At present the Canada Pension Plan and the Quebec Pension Plan provide dropout provisions for stay-at-home parents which protect their future pension entitlements from reductions as a result of these years of zero income (up to seven years per child). We could extend this measure by allowing those parents to make current or future contributions to the CPP/QPP related to their stay-at-home years. A variety of details need to be worked out to ensure, for example, that these contributions are not subject to double taxation. Other details to be worked out include: the earnings base upon which contributions are made and pension benefits calculated, and who is to pay the employers contribution.

Similarly, the income sacrifice made by stay-at-home parents could be recognized by allowing RRSP contributions to be made for the benefit of such parents. At present, taxpayers may contribute to a spousal RRSP. This provision may be employed whether or not a spouse stays home to raise children. Additional RRSP room could be made available for parents who stay-at-home to raise children, and this room could either be carried forward or added to the RRSP room of the working spouse, on condition that it be used for a spousal RRSP. In designing any such program, it is important that it be advantageous to the stay-at-home parent and not subject him or her to double taxation. The government should consider options for stay-at-home parents to contribute to pension plans with respect to their caregiving years. We believe such provisions would be an important and significant recognition of the value of child rearing.

4. EXPANDED EI BENEFITS

The EI program provides support to parents who temporarily leave the paid workforce to care for children. This is accomplished by the maternity and parental benefits of the EI program.

Employees with at least 700 hours of work are entitled to these benefits upon the birth or adoption of a child. Benefits are calculated as 55% of insured earnings, to a maximum of \$413 per week. Maternity benefits, available only to the natural mother, can extend up to 15 weeks. Parental benefits of an additional 10 weeks are available to either parent, for either a birth or an adoption. A further five weeks is available if the child has special needs. In total, these benefits cannot exceed 30 weeks. After having been on maternity leave, women must meet the full 700-hour requirement to qualify for any further maternity benefits. This is true even if they have a long history of uninterrupted workforce participation. In the view of the Committee, this policy should be reviewed.

In order to provide greater income support to new parents it has been suggested that these benefits be extended to one year in total, in contrast to the 25 weeks (which can in some cases be extended to 30 weeks) now available and that the period during which benefits are taken be made more flexible, so as to facilitate transition into the paid workforce.

Moreover, additional changes have been recommended with respect to the waiting period before which benefits are paid. The Committee endorses these recommendations. In the first place, we see no reason why a two-week waiting period should apply to these parental benefits. If the government is willing to provide 15 weeks of maternity benefits, why must the mother endure 2 weeks without income? There is no policy rationale for this waiting period. Another anomaly relates to the second waiting period that applies in certain circumstances. If the mother chooses to take parental leave in addition to the maternity leave, there is no additional waiting period. If, on the other hand, the father chooses to take parental benefits a second two-week waiting period is imposed. This penalizes parental sharing of child rearing. Moreover, if it makes no sense to impose the first waiting period, it makes even less sense to impose the second waiting period.

5. SOME OTHER ISSUES

Several issues were raised by witnesses that deal with some of the specific mechanics by which programs are delivered. It is these mechanics that result in certain perceived inequities.

One such example concerns the inability of divorced couples to split the equivalent to married amount amongst those who care for or support children. We report this concern and ask that the departments of Finance and Justice address the matter in current legislation.

Another concern frequently expressed by witnesses relates to the time lag in the adjustments to the Canada Child Tax Benefit when the circumstances of families change. Where a parent withdraws from the workforce to provide direct parental care, the monthly benefits continue to be based on the prior year's family income. While this is eventually rectified, the benefits are not received when they are most needed.

THE CHOICES FACING PARENTS WHO HAVE CHILDREN

When couples have children they are faced with a variety of options. One of the parents may stay-at-home for a short period of time to raise the child, and re-enter the workforce soon thereafter. Re-entering the workforce increases the financial resources available to the family, while at the same time subjecting the family to a variety of additional expenses.

One of the parents may stay-at-home for a prolonged period of time to provide child rearing. In this case the financial resources available to family will be less, but so will be the monetary outlays.

Families with children make a number of trade-offs. They trade off financial income for time and greater amounts of unpaid home work, primarily child care. Depending upon the financial status of the family, they might make the decision to forego market income and to provide home-based child care. In other instances families give up time to earn more income.

These decisions are largely independent of the financial position of families. Some interesting statistics were presented to the Committee by Richard Shillington, and are presented in the chart, earlier in this Report. According to his data, no matter what the income level of families, roughly the same proportion of families have both parents working full-time, all year. Looked at in a slightly different way, the probability that a mother would choose to work full-time in the labour force is, for the most part, independent of the income of the father. This point was confirmed by Status of Women Canada when, in their discussion of family realities, they stated that “Fathers income does not have a large effect on mothers employment status.” Once again, this is a choice made by parents. It is not related to family income and it is one society should respect.

Thus the issue of single-earner vs. dual-earner families is not one of rich vs. poor or middle income vs. upper income. It is very much an issue about the choices that parents face and make, in what they think are, in the best interests of their families. This is what we believe to be the real issue.

The Committee believes that these choices should rest with the family. The government should neither encourage nor penalize caregiver choices. That is one reason why we favour a more universal approach to child benefits. Universality leaves parents free to choose, as much as possible, the manner in which they will care for their children.

Nevertheless, we recognize that child benefits, like other government policies cannot be completely universal. Public policy, by its very nature, is discriminatory. Not all will be treated the same, but they should be treated equitably.

SOME PRINCIPLES AND CONSIDERATIONS GUIDING THE COMMITTEE

In attempting to come up with a consensus amongst members of the Committee as to the nature of the current debate and possible solutions, we have been guided by several broad principles that we believe should apply to policies related to families with children.

These are, generally:

- Our policy should be child centred and promote the best interest of the child to the greatest extent possible.

- Our policy should presume that parents are the primary caregivers and that they are in the best position to determine what constitutes the best possible care arrangement for their children.
- Our policy should provide flexibility, options and choices which will make it feasible for either parent to be the caregiver or to be in the paid workforce.
- Our policy should be inclusive and responsive to the social realities, circumstances and preferences of parents and their children. Specifically, it should be sensitive to the situation of lone parents, stay-at-home parents, those with disabled children, the self-employed, students with children and those on social assistance.
- Our policy should be fair and equitable and neither encourage nor penalize caregiving choices.

SUMMARY

The Committee was given the mandate to examine the tax and transfer system in order to determine if the system treats families in an inequitable manner. We heard testimony from a large number of witnesses and have studied the matter closely. Most of the difference in the way single-earner and dual-earner families are treated is due to the nature of the tax system. Since the tax system has a progressive rate structure, applied to individuals, the Committee has concluded that the tax system treats families in an equitable manner because they are taxed as individuals. Any changes to the basic nature of the tax system would constitute broad tax reform, which is well beyond the mandate of this Committee. There are, however, certain provisions that provide greater benefits to some families.

While we recognize that some of our suggestions go beyond our mandate, we are prepared to highlight four of them at this stage, based on the testimony heard and our analysis. We believe them to be consistent with the stated principles that have guided the Committee throughout its study.

- I) **The government should consider reviewing the Child Care Expense Deduction in order to ensure that it is meeting its policy objectives in a way which is most efficient and effective for Canadian families with children.**
- II) **The government should consider options for stay-at-home parents to contribute to pension plans with respect to their caregiving years. We believe such provisions would be an important and significant recognition of the value of child rearing.**

- III) The government should consider improvements to, and greater flexibility of, the maternity and parental leave provisions of the EI program. We support an extension of the supported leave period to one year. In addition, we see no policy rationale for a waiting period applying to maternity and parental benefits.
- IV) The government should consider introducing a new refundable tax credit under the Canadian Child Tax Benefit to be available to parents who provide direct parental care. We believe that such a measure would improve the equity of the tax transfer system and provide recognition of the value to society of child rearing.

APPENDIX A

LIST OF WITNESSES

Organizations and Individuals	Date
<p>Status of Women Canada</p> <p>Jackie Claxton, Director General Women's Program and Regional Operations</p> <p>Zeynep Karman, Director, Research</p> <p>Florence Levers, Co-ordinator</p> <p>Sheila Regehr, Economic Policy Coordinator Policy Analysis and Development and External Relations Directorate</p>	Tuesday, April 20, 1999
<p>Department of Finance</p> <p>Louis Lévesque, General Director Personal Income Tax Division Tax Policy Branch</p> <p>Munir Sheikh, Assistant Deputy Minister Tax Policy Branch</p>	Wednesday, April 21, 1999
<p>Canadian Child Advocacy Association</p> <p>Maryann Bird, Director</p> <p>Jamie Kass, Member</p>	Thursday, April 22, 1999
<p>Canadian Labour Congress</p> <p>Andrew Jackson, Senior Economist Social and Economic Policy</p> <p>Nancy Riche, Executive Vice-President</p>	
<p>Carleton University</p> <p>Frances Woolley, Associate Professor Department of Economics</p>	
<p>Ottawa-Carleton Child Poverty Action Group</p> <p>Lynn Sherwood, President</p>	
<p>Tristat Resources</p> <p>Richard Shillington</p>	

Organizations and Individuals	Date
As Individual Sylvie Brin	Thursday, April 22, 1999
Human Resources Development Canada Alain Denhez, Assistant Director Tax Policy, Social Policy Marta Morgan, Director, Children's Policy Social Policy, Strategic Policy Ron Stewart, Assistant Director General Labour Market Policy, Strategic Policy	Tuesday, April 27, 1999
FatherCraft Canada Glen Cheriton, Executive Director	Thursday, April 29, 1999
Mothers Are Women Sonya Nigam, Member, Steering Committee	
B.C. Federation of Labour John Weir, Director	Monday, May 10, 1999
Campaign Life Coalition of B.C. John Hof, President	
Canada Family Action Coalition Lucinda Cullen	
Canadian Centre for Policy Alternatives Marjorie Griffin Cohen, Research Associate Margot E. Young, Research Associate	
Coalition on Child Care Advocacy Lynell Anderson, Member Rita Chudnovski, Member	
First Call Cindy Carson, Provincial Coordinator	

Organizations and Individuals	Date
<p>Focus on the Family</p> <p>Darrel Reid, President</p> <p>Jim Sclater, Director of Public Policy</p>	Monday, May 10, 1999
<p>Real Women of B.C.</p> <p>Laurie Geschke, Vice-President</p> <p>Doris Rankin, Board Member</p> <p>Cecilia Van-Dehn, Member</p>	
<p>Social Planning and Research Council of British Columbia</p> <p>Michael Goldberg, Research Director</p> <p>Nancy Henderson, Executive Director</p> <p>Jane Pulkingham, Past Chair, Income Security and Labour Market Committee</p>	
<p>Westcoast Women for Life</p> <p>Sheila Formby, Director</p> <p>Kathleen Higgins, President</p> <p>Cecilia Ziebart, Director</p>	
<p>As Individuals</p> <p>Eleanor Girard</p> <p>Joseph Hattie, Archdiocese of Vancouver</p> <p>Paul Kershaw, Ph.D Student University of British Columbia</p> <p>John Richards, Professor Simon Fraser University</p> <p>Tom Walker</p> <p>Leslie Zenger</p>	
<p>Alberta Federation of Women United for Families</p> <p>Hermine Dykxhoorn, Executive Director</p>	Tuesday, May 11, 1999

Organizations and Individuals	Date
<p>Kids First, Parent Association of Canada</p> <p>Cathy Perri, President</p> <p>National Foundation for Family Research and Education</p> <p>Mark Genuis, Executive Director</p> <p>NSWB, Barristers and Solicitors</p> <p>Thomas A. Schuck</p> <p>Social Planning Council of Winnipeg</p> <p>Scott DeJaegher, Assistant Policy Analyst</p> <p>Sid Frankel, Board Member</p> <p>As Individuals</p> <p>Heather Gore-Hickman</p> <p>Kerry S.B. Guy</p> <p>Randy W. A. Ritchie</p> <p>Beverley Smith</p>	Tuesday, May 11, 1999
<p>C.D. Howe Institute</p> <p>Finn Poschmann, Policy Analyst</p> <p>Campaign 2000</p> <p>Colin Hughes, Chairperson Toronto Campaign</p> <p>Brigitte Kitchen, Professor of Social Work York University</p> <p>Canadian Association of Insurance and Financial Advisors</p> <p>Karl Keilhack, Taxation Consultant</p> <p>Child Poverty Action Group</p> <p>Michael Flanagan, Parent</p> <p>Christa Freiler, Program Director</p>	Wednesday, May 12, 1999

Organizations and Individuals	Date
<p>Children's and Youth Action Committee</p> <p>Olivia Chow, Councillor, Greater Toronto Area Children's Advocate</p> <p>Deirdre O'Sullivan, Parent</p> <p>National Association of Women and the Law</p> <p>Kim Brooks, Member, Fiscal Policies Working Group</p> <p>Lisa Philipps, Chair, Fiscal Policies Working Group</p> <p>Ontario Christian Home Educators Connection</p> <p>Jake Zwart, Secretary</p> <p>Ontario Coalition for Better Child Care Network</p> <p>Dawn Archambault, Parent</p> <p>Molly Ladd-Taylor, Parent</p> <p>Kerry McCuaig, Executive Director</p> <p>Real Women of Canada</p> <p>Gwendolyn Landolt, National Vice-President</p> <p>Lorraine McNamara, National Secretary</p> <p>As Individuals</p> <p>Shannon Brodie</p> <p>Yvonne Choquette</p> <p>Jim Davies, Professor and Chair Department of Economics, University of Western Ontario</p> <p>Joseph & Rachel Difonzo</p> <p>David Duff, Professor, Faculty of Law University of Toronto</p> <p>Deborah Kusturin</p> <p>Wendy Racovali</p> <p>Chris Sarlo, Professor, Department of Economics, Nipissing University</p>	Wednesday, May 12, 1999

Organizations and Individuals	Date
Alan Schwartz	Wednesday, May 12, 1999
Cheryl Stewart	
Mel Tuck	
Annapolis Valley—Hants Community Action Program for Children	Thursday, May 13, 1999
Pauline Raven, Regional Coordinator	
Anti-Poverty Network Halifax	
Tay Landry, Member	
Susan Le Fort, Member	
Cape Breton Family Resources Centre	
Joanna Latulippe-Rochon	
Group of 12 for Social Justice	
Claude Snow	
As Individuals	
Jennifer Auld-Cameron	
Mary Boyd, Social Worker	
Edwin C. Harris	
Jack Harris, Leader of Newfoundland New Democrats	
Maureen MacDonald, M.L.A. NDP Social Services Critic	
"Après-Rupture — Journal d'action pour les liens pères enfants"	Friday, May 14, 1999
Gilbert Claes	
"Association des secondes épouses du Québec"	
Carole Ducharme	
Annie Godbout	

Organizations and Individuals	Date
<p>“Association liens pères enfants”</p> <p>Aurélien Lessard “Journal d’action pour les liens pères enfants”</p> <p>Jacques Pettigrew</p> <p>Rock Turcot, President</p>	Friday, May 14, 1999
<p>Confederation of National Trade Unions (CSN)</p> <p>François Bélanger, Economist</p> <p>Marc Laviolette, Vice-President</p>	
<p>As Individuals</p> <p>Gérard Croteau</p> <p>Peter Kirby, Counsel</p> <p>Helen Lambrinakos</p> <p>Pierre Sauvageau</p>	
<p>Canada Family Action Coalition</p> <p>Peter Stock, National Affairs Director</p>	Tuesday, May 25, 1999
<p>Canadian Policy Research Networks</p> <p>Judith Maxwell, President</p>	
<p>Canadian Tax Foundation</p> <p>Robin MacKnight, Director</p>	
<p>Evangelical Fellowship of Canada (The)</p> <p>Bruce Clemenger, Director, National Affairs</p>	
<p>Statistics Canada</p> <p>Doug Norris, Director, Housing Family and Social Statistics</p> <p>Maryanne Webber, Director, Income Statistics</p>	
<p>University of Toronto</p> <p>Gordon Cleveland, Professor Department of Economics</p>	

Organizations and Individuals

Date

Canadian Union of Public Employees

Thursday, May 27, 1999

**Nancy Rosenberg, Senior Officer
Equality Branch**

EGALE (Equality for Gays and Lesbians
Everywhere)

Todd Armstrong

Ron Chaplin, Chair, Political Action Committee

Marion Steele

APPENDIX B LIST OF SUBMISSIONS

Annapolis Valley—Hants Community Action Program for Children

“Après-Rupture — Journal d’action pour les liens pères enfants”

“Association des secondes épouses du Québec”

“Association féminine d’éducation et d’action sociale (AFEAS)”

“Association liens pères enfants”

B.C. Federation of Labour

Shannon Brodie

C.D. Howe Institute

Campaign 2000

Campaign Life Coalition of B.C.

Canadian Association of Insurance and Financial Advisors

Canadian Centre for Policy Alternatives

Canadian Child Advocacy Association

Canadian Labour Congress

Canadian Policy Research Networks

Canadian Union of Public Employees

Carleton University

Deborah Chalmers

Child Poverty Action Group

Christian Heritage Party of Canada

Rodney Collens

G rard Croteau

Jim Davies

Department of Finance

Jean Down

Jake Drupsteen

David Duff

EGALE (Equality for Gays and Lesbians Everywhere)

Tara English

Evangelical Fellowship of Canada (The)

FatherCraft Canada

Eleanor Girard

Amy Gollen

Wendy Greene

Group of 12 for Social Justice

Kerry Guy

Edwin Harris

Joseph Hattie

Wendy Hillier

Human Resources Development Canada

Mary James

Katty Johnston

Kids First, Parent Association of Canada

Peter Kirby

Deborah Kusturin

Helen Lambrinakos

Martineau Walker Advocates

M.E. McCaskill

Betty McPhee

Rita Moore

Mothering Matters

Mothers Are Women

National Association of Women and the Law

National Council of Women of Canada

National Farmers Union — Women's Committee

May Nickson

Crystal Noonan

NSWB, Barristers and Solicitors

Numac Energy Inc.

Ontario Christian Home Educators Connection

Ontario Coalition for Better Child Care Network

Len Park

Wendy Racovali

Real Women of B.C.

Real Women of Canada

David Record

Chris Sarlo

Alan Schwartz

Single Parents' Network

Beverley Smith

Social Planning and Research Council of British Columbia

Social Planning Council of Winnipeg

Statistics Canada

Status of Women Canada

Cheryl Stewart

Frank Stokes

Tristat Resources

Mel Tuck

“Université du Québec à Montréal”

University of Toronto

University of Western Ontario

Vanier Institute of the Family

Tom Walker

Westcoast Women for Life

Carol Wilkins

Richard and Rhonda Wolfe

APPENDIX C: A SHORT HISTORY OF CHILD BENEFITS

For many years, the *Income Tax Act* recognized the essential costs of supporting dependent children in the form of a personal exemption allowing a supporting parent to deduct a specific dollar amount for each child in computing taxable income. At the same time, family allowances provided a universal transfer payment to families with dependent children.

On 1 January 1993, the federal government put in place a new system of child benefits modelled after the refundable Child Tax Credit which had been in existence for a decade. It replaced the Child Tax Credit, the family allowance, and the Child Tax Exemption credit. As a result, the *Income Tax Act* no longer recognizes essential costs of supporting dependent children when determining the amount of income tax payable by those providing that support.

The family allowance was instituted in 1945, and generally paid to the mother. Its configuration had changed several times since it was first put in place. In 1973 the benefit was made taxable and indexed to the Consumer Price Index (CPI). In 1979 benefits were reduced upon the creation of the Child Tax Credit. Prior to its eventual elimination, the family allowance was made subject to a clawback.

The Child Tax Exemption was introduced in 1918 to recognize the expense and social value of child rearing. It, like other personal exemptions, was introduced to promote horizontal equity in the tax system. Like all tax exemptions and deductions it was established so that the tax system would only apply tax to discretionary income. The after-tax benefit was of greatest absolute benefit to those in the highest tax brackets.

When the federal government reformed its personal income tax system this exemption was converted into a non-refundable credit. Prior to that reform however it was the intention of the government to reduce the value of this exemption to a level equal to that of the family allowance, so that it would have the effect of making the family allowance tax-free to families. The parent claiming the Child Tax Exemption was required to report the family allowance as income.

The Child Tax Credit was introduced in 1979, to provide additional financial assistance to low and middle-income families with dependent children. It was delivered to the parent or guardian who received the family allowance.

The equivalent to married exemption (now the equivalent to spousal credit) was introduced in 1918. It was designed to create horizontal equity between one-parent and

two-parent families with children — a two-parent family enjoyed the benefit of either a personal and a spousal exemption, or two personal exemptions. (A divorced couple with children may take advantage of two basic credits plus an equivalent to spousal credit.) This exemption was also converted into a non-refundable credit as a result of tax reform.

The Child Care Expense Deduction was introduced in 1971 and was originally intended for one-parent families only. It was designed to offset the incremental costs of child rearing for parents in the labour force. When first introduced, this deduction was limited to \$2,000 per child under age 14, subject to a maximum of \$8,000 per family.

APPENDIX D: THE MECHANICS OF SELECT PROGRAMS THAT APPLY TO FAMILIES WITH CHILDREN

When officials from Human Resources Development Canada appeared before the Committee, they spoke about a number of government programs that could be of benefit to families with dependent children. This appendix provides an explanation of those programs, detailing just how they benefit those families.

EMPLOYMENT INSURANCE (EI)

The *Employment Insurance Act* provides for two types of benefit: regular and special. Special benefits include maternity, parental and sickness benefits.

MATERNITY BENEFITS

A maximum 15 weeks of maternity benefits are payable to a natural mother in the period surrounding the birth of her child. The benefit period begins the earlier of up to eight weeks before the week in which the birth is expected or the week in which the birth occurs. The period ends 17 weeks after the later of the week in which the birth is expected or the week in which the birth occurs. No benefits are paid during the two-week waiting period. The benefit period can be extended for every week the child is in the hospital up to 52 weeks following his or her birth.

PARENTAL BENEFITS

A maximum 10 weeks of parental benefits are payable to natural and adoptive parents. The parental benefits can be split between the mother and father, but they will both have the two-week waiting period unless the natural mother already had it for the maternity benefits. Parental benefits can be increased up to 15 weeks if the child suffers from a physical, psychological or emotional condition that requires care. Parental benefits are available during the 52 weeks following the birth of the child for natural parents and following the moment the child arrives home for adoptive parents.

SICKNESS BENEFITS

Sickness benefits are paid when a person is sick, injured or in quarantine. Benefits are paid up to 15 weeks if the person had 700 hours of insurable employment in the last 52 weeks or

since the start of the last EI claim. If the person already received benefits for another reason and falls ill, the person can qualify with less than 700 hours. Sickness benefits can be added to maternity and parental benefits, for a maximum total of 30 weeks.

ELIGIBILITY AND AMOUNT OF BENEFITS

To receive these special benefits, a person must have worked at least 700 hours in the last 52 weeks or since the start of the last EI claim.

SPECIAL BENEFITS

The weekly benefits are based on the earnings of the last 26 continuous weeks ending with the last day of work. To determine the average weekly insured earnings of the claimant, the total of the earnings in the last 26 continuous weeks of work is divided by the greater of:

- the number of weeks the claimant has worked in the last 26 weeks; or
- the minimum divisor number determined by the local unemployment rate in the region of the claimant, as shown in the table below.

**Table — Minimum Divisor Associated with the Unemployment Rate
in the Region of the Claimant**

Unemployment Rate (%)	Minimum Divisor
0 to 6.0	22
6.1 to 7.0	21
7.1 to 8.0	20
8.1 to 9.0	19
9.1 to 10.0	18
10.1 to 11.0	17
11.1 to 12.0	16
12.1 to 13.0	15
13.1 and over	14

Source: Human Resources Development Canada, *Maternity, Parental and Sickness Benefits*, available on the internet site: <http://www.hrdc-drhc.gc.ca/insur/claimant/201017.shtml>, revised 10/02/99.

The result is then multiplied by 55% to obtain the weekly benefit. The maximum benefit is \$413 per week.

FAMILY SUPPLEMENT

The Family Supplement is currently under revision, and no information is available at the moment. If a family has children, has a net income less than \$25,921, and receives the

Canada Child Tax Benefit (CCTB), the EI claimant may be eligible for a Family Supplement. If both spouses receive EI benefits, it is generally better off financially if the person with the lower benefit receives the Family Supplement. It is calculated as follows:

- if family net income is less than \$20,921, the benefit is the weekly equivalent of the Canada Child Tax Benefit (the base benefit and the National Child Benefit Supplement);
- if family net income is between \$20,922 and \$25,921, this amount is reduced by 0.02% of net income in excess of \$20,921.

The Family Supplement is capped so that the benefit rate cannot exceed 75% of insurable earnings in 1999 (increased to 80% in 2000). Total benefits, including the Family Supplement cannot exceed \$413 per week.

EXAMPLES

If a person worked each week in the 26 weeks preceding the last day of work, having total earnings of \$9,100 in an area where the unemployment rate is 8.3%, the weekly benefits will be \$193.

If a claimant has 2 children aged between 8 and 18 years of age and family net income is less than \$20,921, CCTB would be \$3,050. The claimant would thus receive a weekly maximum of \$59 under the Family Supplement (providing it was not capped).

CANADA PENSION PLAN (CPP)

The retirement benefit of the Canada Pension Plan is based on the value of contributions and the length of time a person contributed. Periods of low income could thus lower the benefit. However, there are several provisions that enable a person to subtract several months (years) from the contribution period. One of them is called Child Rearing Dropout Provision which allows parents to take care of their children for the entire period before they reach age 7, without including this time in the contribution period. The standard contributory period begins when a person reaches age 18 or 1 January 1966, whichever is later. The contributory period ends when a person receives a CPP retirement pension, reaches age 70 or dies, whichever occurs first. For an individual reaching age 18 today, the contributory period would be 52 years.

ELIGIBILITY AND AMOUNT OF BENEFITS

If children are born after 31 December 1958 and one of the parents left the paid labour force, or reduced his or her participation in the paid labour force, this parent may be eligible

for the provision. At the time of retirement, an average of earnings is made for 85% of the years in the contributory period. That is, the lowest 15% of earnings in the contributory period are not taken into account. If there are low earning years associated with the care of children, these years (up to seven years per child) will be dropped from the contributory period. The calculation of the retirement benefits is as follows:

- Calculate contributory period by subtracting eligible years or child rearing;
- Erase 15% of years in the contributory by ignoring those years with the lowest income;
- Calculate the average annual income of the remainder;
- Multiply by 25%, which is the amount of income the CPP is designed to support;
- Divide by 12 to get the monthly benefit.

EXAMPLE

Consider the case of a woman who earns an amount equal to the maximum pensionable earnings every year in which she works. If she retires in 1999, her contributory period is 33 years.

The monthly maximum CPP benefit is \$751.67. If she worked every year this is the amount she would receive. If she worked for 26 years, and stayed at home to raise a child for the other 7 years, she would also receive this maximum amount because of the application of the child rearing dropout provision. In this case her contributory period is 26 years.

Without the child rearing dropout provision, her contributory period would be 33 years and she would only benefit from the general provision that removes the lowest 15% of earning years from the calculation of benefits. Fifteen percent of 33 years is about 5 years. In this case her pension would decline to \$637.78, a decline of \$113.89.

CANADA CHILD TAX BENEFIT

The Canada Child Tax Benefit has two components: the base benefit and the National Child Benefit supplement (NCB supplement). The benefits are revised each year in July (or following certain changes in the family situation during the year).

ELIGIBILITY AND AMOUNT OF BENEFITS

A. *NCB Supplement*

The NCB supplement provides increased benefits to families with net family income lower than \$25,921. It provides \$605 for the first child, \$405 for the second child and \$330 for the third child and subsequent children. The benefit is reduced for families with net family income above \$20,921 at a rate of 12.1% for families with one child, 20.2% for families with two children and 26.8% for families with three or more children. This benefit reduction rate is applied to net family income above \$20,921 and this amount is subtracted from the benefit calculated according to the number of children. In July 1999, the amounts for each child will increase to \$785 for the first child, \$585 for the second child and \$510 for the other children. Also, the cut-off level of net family income increase from \$25,921 to \$27,750. The benefit reduction rates will accordingly be changed to 11.5% for families with one child, 20.1% for families with two children and 27.5% for larger families.

B. *Base Benefit*

The base benefit is \$1,020 per child. There is also a supplement of \$75 for the third and each subsequent child, and a supplement of \$213 for each child under 7 for whom no child care expenses are claimed. If there are claimed child care expenses, 25% of the total is subtracted from the \$213. The base benefit is reduced by 5% (for families with more than one child and 2.5% for single-child families) of family net income above \$25,921. No changes are planned for the base benefit in July 1999. In Alberta and Quebec, the base benefit is calculated differently. In Alberta, the age of the child is taken into account and in Quebec, both the age of children and the number of children are taken into account.

EXAMPLE

A family with 3 children aged 6, 9 and 10 years old having \$23,000 in net family income with no Child Care Expense Deduction would receive a supplement and a base benefit. Between July 1998 and July 1999, the supplement would be $\$605 + \$405 + \$330 - (\$23,000 - \$20,921) \times 0.268 = \782.83 . The base benefit would be $(\$1,020 \times 3) + \$75 + \$213 = \$3,348$, for a total annual benefit of \$4,130.83 (\$782.83 + \$3,348).

CHILD CARE EXPENSE DEDUCTION

Child care expenses are deductible from total income. They reduce the federal income tax liability, and hence provincial tax liabilities in all provinces but Quebec.

ELIGIBILITY AND AMOUNT OF BENEFITS

Child care expenses are deductible if they allow a person to earn income from employment, carry on a business, attend school or carry on research for which the person

receives a grant. Children must be under 16 years of age, or mentally or physically infirm. The person can claim such expenses if the child is his or hers or his or her spouse's or dependent on the person or his or her spouse. Expenses must have been paid by the person or another supporting person. If there are two supporting persons, the Child Care Expense Deduction must generally be claimed by the person with the lowest net income (some exceptions apply). Child care expenses are subject to a maximum of 2/3 of earned income or the total of \$7,000 per child under 7 years old (or eligible children older for whom the disability amount can be claimed) and \$4,000 per child under 16 years old (or eligible children older with a mental or physical infirmity for whom the disability amount cannot be claimed), whichever is less.

EXAMPLE

A couple earns \$50,000 (\$30,000 for one parent and \$20,000 for the other) and has 2 children, one 5 years old and the other 8 years old, and there are child care expenses of \$8,000 (\$6,000 for the youngest and \$2,000 for the other child). The Child Care Expense Deduction would be claimed by the lowest earning spouse and would be the lesser of:

\$8,000 (actual expenses);
 $\frac{2}{3} \times \$20,000 = \$13,333$ (the limit on earned income);
 $\$7,000 + \$4,000 = \$11,000$ (the statutory limits).

If there are no other deductions, taxable income for the lowest earning spouse is thus \$12,000 and federal income tax to pay is \$746.60 while it would have been \$2,152.73 without the Child Care Expense Deduction. The person thus saved \$1,406.13.

The change in net income also has an impact on CCTB. With the Child Care Expense Deduction, net family income is \$42,000, resulting in a CCTB of $(\$1,020 \times 2) - (\$42,000 - \$25,921) \times 0.05 = \$1,236.05$. Without the Child Care Expense Deduction, the CCTB would be $(\$1,020 \times 2) + \$213 - (\$50,000 - \$25,921) \times 0.05 = \$1,049.05$. The Child Care Expense Deduction translates into an increase in the CCTB of \$187.

APPENDIX E:

AN INTERNATIONAL COMPARISON OF SOME PROGRAMS DELIVERED TO FAMILIES WITH CHILDREN

	Child Tax Exemptions (Credits) ¹	Child Benefits ²	Child Care Expense Deductions ³	Family Allowances	Maternal/Parental Leaves	Other Cash Transfers
Canada	No child tax exemption for families with dependant children. ⁴	Child benefits to families with dependant children.	Available to parents that present receipts under certain circumstances. Must report name and SIN of caregiver.	No family allowances. Have been replaced by more targeted programs.	15 weeks at 55% replacement rate. ⁵ (Maternal leave) 10 weeks of parental leave that can be divided among parents. (Self-employed are not eligible) 2-week waiting period	In addition to the Canada Child Tax Benefit, Canadian families with low income receive a supplement. Some provinces reduce social assistance payments as a result.
United States	Tax exemptions for families with dependant children.	No child benefits.	Has a program of child care deductions.	No family allowances.	12 weeks of unpaid leave. ⁶ (Maternal leave)	The Earned Income Tax Credit is a credit available for low-income American families. However, it is subject to restrictions in regard to parenthood and labour-force participation.

¹ Equivalent to the wording "tax relief" in some countries.

² In some countries, such as Norway or the Netherlands, the amount of benefits increases with the number of children. However, in the United Kingdom, the amount decreases after the first child.

³ In most countries, child care deductions are available only to two-earner families (or to lone mothers in the workforce). However, one-earner family can often claim tax relief for dependant spouses. (From "An International Comparison of Policies and Outcomes for Young Children," Shelley Phipps, CPRN Study No. F05, p. 56).

⁴ Lone parents can claim an "equivalent to married" credit for their first child. (From "An International Comparison of Policies and Outcomes for Young Children", Shelley Phipps, CPRN Study No. F05, p. 56).

⁵ Ceiling on benefits payable.

⁶ Only available in private firms with at least 50 employees.

	Child Tax Exemptions (Credits) ¹	Child Benefits ²	Child Care Expense Deductions ³	Family Allowances	Maternal/Parental Leaves	Other Cash Transfers
Netherlands	No tax exemption.	Offers child benefits to families with dependant children.	No child care deduction. Direct help to families through public child care is provided.	Family allowances available regardless of family income level.	16 weeks of maternity benefits at 100% replacement rate. 6 months of part-time unpaid parental leave is also available.	Nothing specific.
Norway	Offers tax exemptions to families with dependant children.	Offers child benefits to families with dependant children.	No child care deduction. Direct help to families through public child care is provided.	Family allowances available regardless of family income level. ⁷	Mothers can choose between 42 weeks at 100% or 52 weeks at 80%. Part-time work option is available. Maternity benefits can be used to "top-up" salary. ⁸ (Self-employed are eligible) Parents can split the period of paid leave.	Nothing specific.
United Kingdom	No tax exemption.	Offers child benefits to families with dependant children.	N/A	Family allowances available regardless of family income level. ⁹	6 weeks of maternity benefits at 90% replacement rate. 12 weeks with a fixed-rate benefit (≈\$125 Cdn).	A family credit is available for families who work more than 16 hours per week. The recipients of the family credit are also eligible for other benefits such as free dental care and prescriptions and so on.

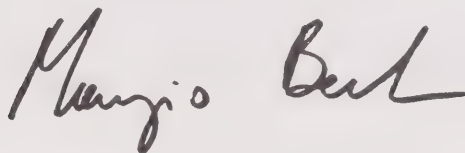
⁷ Lone mothers receive a double payment for their first child (about \$4,000 per year per child).

⁸ For a maximum of two years.

⁹ Lone mothers receive a supplement for their first child.

Copy of the relevant Minutes of Proceedings (*Meeting No. 193*) is tabled.

Respectfully submitted,

A handwritten signature in black ink, reading "Maurizio Bevilacqua". The signature is written in a cursive style with a large initial 'M' and a long, sweeping underline.

Maurizio Bevilacqua, MP
Chair

OFFICIAL OPPOSITION DISSENTING OPINION ON FAMILY TAXATION

The Official Opposition supports some of the recommendations contained in the report of the sub-committee on family taxation. However, given the limited scope the government placed on the mandate of the Committee, we are disappointed that its recommendations do not go far enough.

The Official Opposition recognizes the value of parenting and would like to ensure that the policies and programs of the federal government treat Canadian families fairly. We must give parents, single or dual income, greater freedom to spend time parenting, and to succeed economically while doing so. There is no doubt that single-income families and families where one parent leaves the workforce to provide child care are penalized by the tax system for doing so.

Building on recommendations made by witnesses, the Official Opposition advocates extending the Child Care Expense Deduction (CCED) to all parents, including those who care for their children at home. To make this program as fair as possible, the CCED would be converted into a refundable tax credit available to all families and income levels. Our proposal would also give families the choice to choose the best child care option that suits them.

Therefore, the Official Opposition proposes a refundable tax credit equal to 17% of the current \$7000 CCED for children under 7 and 17% of \$4000 CCED to be made available for parents of children between the ages of 7 to 12 years of age. It is important to note that the current system allows for the CCED for children right up to 16 years of age.

Specifically, parents would receive \$1190 for every child up to age 7 and \$680 for every child 7-12 years of age.

The Official Opposition further proposes that the Spousal Amount be increased from the current \$5918 to \$7900, levelling the field for parents who choose to stay at home to look after young children, and helping families meet the needs of a more demanding economy.

Heeding Canadians' plea for lower taxes, the Official Opposition would implement across the board, broad-based tax relief that would leave two-income families significantly better off.

These measures are a start to addressing the unfairness in the tax code with respect to its treatment of Canadian families. We urge the government to take a serious look at these proposals to remedy the disparities to families that exists in our public policy.

Paul Forseth, M.P.
New Westminster—Coquitlam—Burnaby

DISSENTING OF THE BLOC QUÉBÉCOIS OPINION

SUB-COMMITTEE ON TAX EQUITY FOR CANADIAN FAMILIES WITH DEPENDENT CHILDREN OF THE STANDING COMMITTEE ON FINANCE

The BQ dissociates itself from the report by the Sub-Committee on Tax Equity for Canadian Families with Dependent Children, whose mandate was to study tax fairness for Canadian families with dependent children.

Lack of courage

The BQ denounces the Sub-Committee's and the report's lack of courage.

After travelling to all parts of Canada, listening to dozens of witnesses, and hearing eloquent testimony on families' situation and the assistance they would like to receive, the Sub-Committee was in a position to witness first-hand the scope and importance of the issues raised, which went well beyond simple inequities between single- and dual-earner families. In our opinion, the hearings were an ideal opportunity to initiate review of a tax system that is widely considered complicated and inequitable. However, the report gives an incomplete and sometimes biased picture of the testimony, and contains practically no meaningful requests that might lead the government to adapt its tax system. At most, the Sub-Committee has been content to note down a few vague suggestions aimed at not displeasing an omnipotent Minister, instead of responding to the expectations of the Canadian public. The public and the various witnesses will definitely be disappointed with the report.

The report does not take this opportunity to demand that the government undertake a genuine reform of its tax system, something that has long been called for but that the government is postponing.

A family policy

Where assistance to families is concerned, we must also point out that the report ignores the considerable efforts by a number of provinces to develop family assistance programs. For example, the report contains only a few lines about the Quebec government's \$5 child care program, which a number of witnesses nevertheless pointed to as an exemplary pillar of genuine family policy.

Furthermore, the Committee has nothing to say about the negative effects of certain tax measures, particularly the Child Care Expense Deduction (CCED) for families using this

child care program. Readers of the report would be led to believe that it is the program that is defective.

Also regarding the CCED, we criticize the Committee's conclusion: "Whether or not this is regressive depends on the nature of the benefit." The Committee also claims that it heard only praise for the CCED at its hearings. In our opinion, these statements are a long way from reflecting most of the testimony heard. The BQ has long called for the regressive CCED to be simply replaced.

In the BQ's opinion, then, it cannot be clearer that the provinces, and particularly Quebec, are in the best position to realize the objectives of a family policy. In this regard, the BQ would have liked the report to demand that the federal government harmonize its tax system with provincial programs and negotiate with the various provinces to transfer the necessary funding.

BQ goes much farther

Where the Employment Insurance program and family support are concerned, the BQ considers that the proposals on the waiting period and a longer period of paid leave are steps in the right direction, but incomplete in comparison with what the BQ has called for. The BQ still wants, in addition to these features, provision for paternity leave, parental leave, and benefits of more than 70% of pay, instead of the present levels of between 55% and 60%. The report's lack of clear recommendations on these points is certainly disappointing.

FAIRNESS FOR PARENTS AND CHILDREN

A DISSENTING OPINION BY MICHELLE DOCKRILL NDP WOMEN'S CRITIC JUNE 1999

The mandate of this Committee was “To study the tax and transfer system as it applies to families with dependent children and . . . determine if (federal policies) treat families with children in an equitable manner.” The challenge for the Committee was to rise above the narrow and misdirected debate about whether parents, — mainly mothers, — who work inside the home are more or less deserving of public support than those who work for pay outside the home, and address the critical issue of whether Canada supports any families adequately today.

Sadly, while the Committee recognizes at some points that “this whole debate . . . has been driven by concerns that are not on target” and that “the tax system does not appear . . . to favour one type of family with children over another type of family with children”; in the end, it fails to deal with the needs of all Canadian families.

The reality is that all parents want to do what is best for their children — and all parents make sacrifices on behalf of their children. For most families, the central issue is how to earn a decent income, and at the same time give their children the security, attention, and stimulation which is essential for all of us to develop, grow and thrive.

The problem with our tax/transfer system is that it discriminates against all children, treating them for tax purposes as a consumer item, like a winter holiday or a minivan. The tax concern is not whether one-earner or two-earner families with children are more or less disadvantaged than the other, but whether the system values children, and the role of parents in raising the citizens of the next generation.

What the Committee's narrow focus obscures is that over the past 15 years Canada, like other powerful economies, has slowly shifted towards the devaluation of children. (Sylvia Ann Hewlett, “*Child Neglect in Rich Nations*”, report to UNICEF). The facts are that:

- Canada is the only country in the industrialized world that has no universal recognition of the costs and value of raising children.
- In real terms, Canada was spending close to \$2 billion more on children in 1984 than it spends today.
- For modest and middle-income families, the value of Canada's child benefit is one of the lowest in the OECD.

- Canada's major tax/transfer program for children, the Canada Child Tax Benefit goes to only 36% of poor families (National Council of Welfare: *Kids are Still Hungry*).

In examining whether Canada treats families with children equitably, it would have been more than appropriate to consider whether the major tax/transfer program for children — the Canada Child Tax Benefit could be improved or even evaluated. But in spite of a wealth of testimony on the subject, the Committee contents itself with asserting that there is no clawback — only a reduction. In so doing, the Committee has reduced an exceptionally important issue, — the fact that Canada's main anti-poverty program withdraws support from the poorest of the poor, — to a discussion of semantics.

Instead, the Committee calls for a reexamination of the Child Care Expense Deduction, the one tax provision that recognizes that child care costs are a legitimate employment-related expense. There are problems with the CCED — right now many people who use child care — and pay for it — can't access the tax deduction because they can't get receipted child care. But the point is, that to support choices for parents, the Committee could have focussed on making this provision less restrictive in the short term, and recommended that the best way to provide real choices for parents would be to put in place an affordable, universal system of early learning and care for all children, and make it available on a full or part-time basis whether their parents are in the labour force or not.

In its conclusions, the Committee calls for extending a new refundable credit, within the Canada Child Tax Benefit, to parents who provide direct parental care. Although intended to expand choices for parents, this proposal is restricted to parents "who forego earned income." The Committee often stated that "our policy should . . . neither encourage nor penalize caregiving choices." Unfortunately, that policy hasn't been fully applied — since this recommendation effectively denies the choice of direct caregiving to mothers on social assistance.

Supporting the decision of a parent to stay home or work part-time while children are young is one of the choices that public policy should support. But it should not be limited by income level. Dozens of witnesses appeared before the Committee to put the case for fairness and real choice for all families. As Rita Chudnovski argued:

"Families whether in or out of the paid labour force have more in common than things that divide them. All of their children need quality early childhood experiences and services, regardless of the employment and economic status of their parents. All parents, whether at home full time or in the paid labour force perform countless hours of unpaid work caring for their children and families and this work need to be recognized. . . . all families need complementary social, fiscal and tax policies that expand and support real parental choice — and support women's social and economic equality. And most importantly, all families need cohesive policies that recognize our shared social responsibility for supporting the healthy growth and development of all of Canada's children."

In some ways, Canada's family policy is stuck in what Judith Maxwell refers to as a paralyzed model, one caught between different ideologies — an ethic that values paid

work, but provides limited support for it. Two-thirds of Canadian women with children work outside the home, but the labour market is on the whole hostile to families. The growth in part-time, non-standard and low-wage employment creates more work, less pay and less time for children. “Flexible” employment is largely on employers’ terms and is very costly in terms of family life and economic security. Limited access to quality child care and jobs that pay a living wage are central to the difficulties today’s families face in trying to reconcile the competing goals of economic security for their families and a nurturing and healthy environment for their children. These realities may be beyond what this Committee saw as its mandate. But they are central to the concerns and the choices facing every Canadian family.

In one very important respect, the Committee recognized the need to help families achieve that balance. Despite our concern about the overall direction of the Committee report, New Democrats are strongly in support of its third recommendation, — to extend maternity and parental leave and to eliminate the waiting periods that prevent both parents from accessing it. Our own approach would have gone further.

NDP Recommendations

Expand Maternity and Parental Leave — to make maternity and parental leave more widely available to women in the part-time workforce, to those who are self-employed and in other non-standard work. We need a range of programs to permit and encourage both parents to combine work and family responsibilities, including longer and more flexible benefits, higher wage replacement, and further incentives to help both parents share parenting more fully.

Introduce an Early Childhood Education program — a comprehensive universal program available to all children, whether their parents are in or out of the labour force, to be phased in one year at a time — to all five year olds in year 1, all four year olds in year 2, three year olds in year 3, etc. Coverage and care for younger children could be accommodated through longer maternity/parental leaves, and early care and education programs.

Restore Universal Recognition of Children in Canada’s Tax/Transfer System via a universal transfer — such as extending the Canada Child Tax Benefit to all families with children, or alternatively a non-refundable tax credit. Expand the National Child Benefit in stages to provide more adequate support to middle-income families, index both the benefit levels and the eligibility thresholds, and eliminate the clawback.

DISSENTING OPINION OF THE PROGRESSIVE CONSERVATIVE PARTY

BROADENING THE SCOPE

The Progressive Conservative Party of Canada believes that families are in the best position to choose what is right for their children. The focus of this report ignored the larger principles of comprehensive reform that are necessary to provide Canadians with that choice without penalizing families.

Canada is the only industrialized nation that does not recognize the cost of raising children when determining the tax burden for families with dependent children relative to those without children. In fact, when compared with most other nations, Canadian families with children pay considerably more tax than those families without children.

The Sub-Committee's report states that "dual-earner couples with the same family income as single-earner households likely pay more tax." This is the case regardless of whether or not they have dependent children. "This is due to the progressive nature of our income tax system and the fact that taxes are levied on individuals and not families." (See section ELIMINATING THE DISPARITY BETWEEN SINGLE — EARNER AND DOUBLE — EARNER COUPLES)

The Sub-Committee believed it was beyond their mandate to challenge these basic principles. It is unfortunate that they failed to fully recognize and suggest that the Department of Finance undergo a comprehensive examination of the tax and transfer system in Canada in order to alleviate the financial strain on families.

Principal Recommendation

We advocate a comprehensive approach to tax reform, where the government examines all existing tax and transfer policies for their effects on families with dependent children.

The tax structure has been changed far too frequently by a piecemeal approach that has introduced many inequities and inefficiencies. The tax system is too complex to expect this patchwork type of solution to work in the long term. A broadbased review of the entire system is necessary.

The recently appointed Progressive Conservative Tax Task Force will examine the tax disparity of Canadians as a whole. The Task Force will be reviewing the impact of the current tax structure and offer a vision to Canadians for an effective tax system that

contributes to our overall well-being and quality of life; something this government is trying to avoid.

The Progressive Conservative Party's Task Force on taxation is comprised of Party members and experts without partisan affiliation. They have been invited to serve on the basis of their expertise.

The Progressive Conservative Party supports the four points raised in the report but believes they do not address certain important inequities raised in the document. We believe that the Minister of Finance should consider, but not limit itself to, examining the following suggestions. It is important to note that the merits of these suggestions and comments would clearly have to be assessed within the context of our principal recommendation; that being a comprehensive examination of all existing tax and transfer policies as stated earlier.

Suggestions

1. A principle basis for inequity between different family configurations is the fact that parents who purchase third-party child care receive a deduction, the Child Care Expense Deduction (CCED), which is not available to parents who provide direct parental care and incur the opportunity cost of forgoing a second income.

Therefore we suggest, the Minister of Finance consider adopting a non-refundable tax credit for all parents who choose not to claim the Child Care Expense Deduction.

Two suggestions brought forward during hearings were a credit worth \$2,000 per family as raised by the CD Howe Institute (total costs \$3 billion) and \$700 per family which replicates the average benefit received by a CCED claimant (total approximate cost \$1.05 billion.)

2. As stated earlier, Canada is the only industrialized nation that does not recognize the cost of raising children. When a parent chooses to provide direct care for their children, Ottawa diminishes the value of work of stay-at-home parents by having the spousal exemption worth approximately 20% less than the basic personal exemption.

Therefore we suggest, the Minister of Finance consider equating the spousal exemption with the basic personal exemption for parents with dependent children.

3. We also suggest the Department of Finance consider examining the mechanism of income splitting, applied to families with children.

We raised this issue only because of the number of witness that advocated this concept. Income splitting allows couples subject to different marginal tax rates to even out their

incomes in such a way that reduces total family taxes paid. By transferring income to the lower income partner, this technique has the effect of altering the basic nature of the tax system—the degree of progressivity is reduced and the unit of taxation becomes the family. (See section INCOME SPLITTING)

We recognize the fact that this concept is not a simple solution in all situations, given that this concept does not benefit one-parent families or parents already paying the lowest marginal rate. The Department of Finance estimates the cost of the program at \$4 billion. The cost of the program is expensive but worthy of study.

4. The Progressive Conservative Party would like to see the government and the provinces jointly review the clawback rules for the National Child Benefit.

This Sub-Committee along with the Progressive Conservative Task Force on Poverty, frequently encountered testimony from lower income Canadian families who see their social assistance clawed back for every benefit dollar they receive. This punitive policy takes money away from those who need it most. The Committee chose not to recommend the Finance Minister review this measure. We believe it is important enough that he should.

MINUTES OF PROCEEDINGS

TUESDAY, JUNE 8, 1999
(Meeting No. 193)

The Standing Committee on Finance met *in camera* at 3:48 p.m. this day, in Room 536, Wellington Building, the Chair, Maurizio Bevilacqua, presiding.

Members of the Committee present: Maurizio Bevilacqua, Nick Discepola, Roger Gallaway, Sophia Leung, Gary Pillitteri, Karen Redman and Paul Szabo.

Acting Members present: Carmen Provenzano for Tony Valeri, Serge Cardin for Yvan Loubier.

Other Members present: Michelle Dockrill and John Herron.

In attendance: From the Library of Parliament: Marion Wrobel, Senior Analyst and Julie Cusson, Analyst.

In accordance with its mandate under Standing Order 108(2), the Committee proceeded to take into consideration the First Report of the Sub-Committee on Tax Fairness for Canadian Families with Dependent Children, entitled: *For the Benefit of Our Children: Improving Tax Fairness*.

It was moved, — That the report be adopted as the Nineteenth Report of the Standing Committee on Finance.

After debate, the question was put on the motion and it was agreed to, on division.

It was moved, — That the Chair be instructed to present the Nineteenth Report of the Committee to the House.

The question was put on the motion and it was agreed to, on division.

It was moved, — That the Committee print 1,000 copies of the report in English and 550 copies in French.

The question being put on the motion, it was agreed to, on division.

At 3:59 p.m., the Committee adjourned to the call of the Chair.

Pat Steenberg
Clerk of the Committee

